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Remarks Please contact State directly and provide this office with name of attendee. FYI: Under Secretary Wallis will chair. Previous meetings attended by Rowen or his designee.

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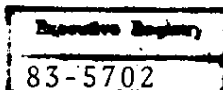
Executive Secretary
November 1983
Date

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United States Department of State

Washington, D.C. 20520



November 25, 1983 DDI- 8571/83

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(With Confidential Attachments)

Senior Interagency Group No. 34

TO: NSC - Mr. Robert Kimmitt
Energy - Mr. William Vitale
Commerce - Mrs. Helen Robbins
Defense - Col. John Stanford
CIA -
OMB - Mr. Alton Keel
OPD - Mr. Edwin Harper
Treasury - Mr. David Pickford
Interior - Mr. Barry Allbright
Transportation - Mr. Logan H. Sallada

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SUBJECT: IESG Meeting

The next meeting of the International Energy Security Group (IESG) will be held Thursday, December 1, 1983 at 10:00 a.m. in the D Conference Room (7224), State Department. The agenda will be as follows:

1. Energy Aspects of the President's Trip to Japan and Korea (Report by State)
2. Secretary Hodel's Trip to the Middle East (Report by DOE)
3. IEA Anti-Trust Waiver Authorization Bill (EPCA 252) (Report by State)

Please confirm your attendance with Kaarn Weaver, Tel. 632-8854.

Attached are documents relevant to Agenda item 1.

Gray

Charles Hill
Executive Secretary

Attachments: a/s

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THE WHITE HOUSE
Office of the Press Secretary
(Tokyo, Japan)

For Immediate Release

November 11, 1983

JOINT STATEMENT BY THE PRESIDENT
AND PRIME MINISTER NAKASONE
ON JAPAN-U.S. ENERGY COOPERATION

Prime Minister Nakasone and President Reagan share the view that further progress be made in energy trade and cooperation in oil, natural gas and coal between Japan and the United States as outlined in the following Joint Policy Statement recommended by the Japan-United States Energy Working Group:

Taking account of the energy prospects for the entire Pacific basin, the two countries agree that the sound expansion of U.S.-Japan energy trade will contribute to the further development of the close economic and energy security relationship which exists between the two countries.

They will continue to discuss and find ways of developing this trade for the mutual benefit of both countries, noting the importance of long-term cooperation, the central role of the private sector, and the need for a balance between economic cost and energy security.

Both countries consider Alaska to be a particularly promising area for joint development of energy resources. Both governments will encourage private sector discussions regarding the possibilities for such development.

With regard to trade in oil, gas and coal, we have agreed on the following next steps:

- A. The U.S. and Japan recognize that if legislative barriers can be removed, the U.S. has the potential to ship substantial quantities of crude oil to Japan, thereby increasing economic incentives for U.S. oil production and helping to diversify Japan's energy sources. The U.S. will continue to keep under review the removal of restrictions on exports of domestic crude oil.
- B. The U.S. and Japan will encourage private industry in both countries to undertake now the pre-feasibility or feasibility studies necessary to determine the extent to which Alaskan natural gas can be jointly developed by U.S. and Japanese interests.
- C. The U.S. and Japan will encourage private industry in both countries to discuss the possibility of concluding long-term coal contracts and jointly developing mines and transportation systems to make American coal more competitive in the Japanese market.
- D. In this regard, the two countries welcome the examinations underway of the technical and economic aspects of several steam coal projects by private companies concerned on both sides. As economic recovery proceeds, Japan will encourage its industries to consider purchase of more competitively priced U.S. steam coal to meet future demands not already covered by existing contracts. In addition, Japan will invite the private sector concerned to explore the possibility of further increasing substitution of coal for oil in electrical generation.

MORE

(OVER)

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- E. With regard to metallurgical coal, both sides noted that the depressed state of world steel manufacturing had reduced demand for traded coal. However, in view of the fact that the U.S. has been a major supplier to the Japanese market, both sides will endeavor to maintain the level of Japanese imports of U.S. coal. Japan expects that imports of competitively priced U.S. metallurgical coal will not continue to decline, and will encourage its steel industry to increase U.S. coal imports when conditions in the industry permit.
- F. As a first step toward developing U.S.-Japan coal trade, from a mid- to long-term prospective, a mission composed of representatives of major Japanese coal users and other appropriate interests will visit the U.S. to meet with major coal mining and transportation interests. The purpose of this mission will be to explore the possibility of expanding coal trade between the U.S. and Japan, and the possibility of conducting a major study of the opportunities for reducing the delivered price in Japan of U.S. coal.

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SUBJ: JAPAN-US ENERGY WORKING GROUP

REFS TOKYO 21990, USDOC 21920

1. (C - ENTIRE TEXT)

2. NEGOTIATIONS WITH THE GOJ ON NOV 10 AND 11 PRODUCED FINAL AGREEMENT ON THE RECOMMENDED STATEMENT OF THE JAPAN-US ENERGY WORKING GROUP.

3. LAST MINUTE TALKS CONCENTRATED ON AN EXPLANATORY SENTENCE ON METALLURGICAL COAL TRADE. THE FOLLOWING EXPLANATION, NOT TO BE PUBLISHED, WAS AGREED BETWEEN THE TWO SIDES: "JAPAN EXPECTS THAT, WITH REGARD TO THE MINIMUM LEVEL IT WILL ACHIEVE IN ITS IMPORTATION OF US METALLURGICAL COAL NEXT YEAR AND ONWARDS, 12 TO 12 MILLION TONS WILL BE REALIZED AND THAT EFFORTS WILL BE MADE FOR ADDITIONAL AMOUNTS, PROVIDED THAT US METALLURGICAL COAL IS COMPETITIVELY PRICED INTERNATIONALLY AND THAT CONDITIONS IN THE JAPANESE STEEL INDUSTRY RECOVER.

4. THE TEXT OF THE AGREEMENT ITSELF, WITH AN OPENING SENTENCE ADDED, WAS RELEASED BY THE WHITE HOUSE TO THE

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PRESS AT 3 P.M. TOKYO TIME ON NOVEMBER 11. THE ADDITIONAL SENTENCE STATED, "PRIME MINISTER NAKASONE AND PRESIDENT REAGAN SHARE THE VIEW THAT FURTHER PROGRESS BE MADE IN ENERGY TRADE AND COOPERATION IN OIL, NATURAL GAS AND COAL BETWEEN JAPAN AND THE UNITED STATES AS OUTLINED IN THE FOLLOWING JOINT POLICY STATEMENT RECOMMENDED BY THE JAPANESE-UNITED STATES ENERGY WORKING GROUP:".

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Report of the US-Japan Working Group on Energy

(Presented to President Reagan and Prime Minister Nakasone,
November 11, 1983)

During the deliberations of the U.S.-Japan Energy Working Group, the two countries reviewed their energy relations in the context of the long-term energy prospects for the entire Pacific Basin, and the vital need of countries in the region for stable and secure supplies of energy. Both governments noted that although energy markets were relatively stable, they were not likely to remain so through the 1990's, and agreed that both countries should continue to diversify their sources of supply. With regard to its energy policy, Japan stated its intention to persevere in its endeavors to develop alternative energy sources, including coal and LNG.

The Opportunity

Energy cooperation can play a vital role in the long-term economic and security relationship between the United States and Japan. The energy sectors in the US and Japan are complementary: the sizeable energy supply potential of the United States can be utilized for the mutual benefit of both countries.

Expanded trade with the US will help Japan diversify its energy sources, thereby enhancing its energy security. The US will benefit by an increase in jobs dedicated to energy exports and by increased investment from abroad in the development of energy resources.

Both countries recognize that US energy exports will have to be competitively priced with alternatives and that purchase negotiations should be carried out through commercial channels.

Existing Energy Cooperation

Our two countries already benefit from a strong cooperative relationship in energy trade and in energy research and development:

- Over the previous four years, Japan has purchased 29% of its coal requirements from the US, including 31% of its metallurgical coal needs;

- The US exports to Japan about a million tons per year of LNG and about 70,000 barrels per day of oil products;

- Japan has contracted for \$400 to \$500 million per year of enrichment services from the US to support its nuclear program, which represents nearly 80% of Japanese requirements;

- The two countries engage in a number of joint R&D projects, including fast breeder reactors, fusion, high energy physics, geothermal energy and photosynthesis.

Potential for Enhanced Energy Cooperation

The Working Group found substantial potential for increased trade and investment in coal, oil and gas based on an assessment of the global, US and Japanese energy situations:

- It was agreed, consistent with the communique of IEA Ministers in May 1983, that the Free World oil market, which is currently characterized by ample supplies and slack demand, is likely to tighten again. This reinforces the need for continued energy diversification to strengthen energy security.

- Forecasts of energy demand for Japan are currently being revised downward due to a projected reduction in economic growth, changes in industrial structure and the effects of energy conservation. However, since overall energy demand is expected to increase substantially between now and the end of the century, efforts will have to be made to find secure sources of all fuel types, striking a balance between energy security and cost considerations.

- The large energy reserve base of the United States will allow the US to meet about 90% of its energy needs through the year 2000. However, within the extensive mix of energy commodities produced in the United States, and across the wide range of U.S. regions, some commodities in some regions will be in substantial surplus. Thus, the U.S. will be in a position to accommodate sizeable energy exports. Development of US energy resources would be greatly enhanced by economically viable investments and long-term purchase commitments from major potential importers such as Japan.

The Group examined the market for coal, oil and gas in Japan to the end of the century and the contribution which the US might make to Japanese requirements for each of these fuels:

- There is limited scope for increasing U.S. steam coal exports to Japan in the immediate future because of the projected supply and demand situation. However, Japan's steam coal demand and imports are expected to rise steadily

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throughout the century, raising the prospect of significant increases in imports from the US if priced competitively with alternative supplies. The Japanese government will encourage its industries to consider positively purchase of U.S. steam coal to meet future demand not already covered by existing contracts.

- The Group noted favorably that examinations by private companies on both sides are underway of the technical and economic aspects of several steam coal projects. Japan expects that the examinations will be completed smoothly and that if the feasibility of the projects is confirmed, they will proceed to the development stage.

- With regard to metallurgical coal, both sides noted that the depressed state of world steel manufacturing had reduced demand for traded coal. However, in view of the fact that the U.S. has been a major supplier to the Japanese market, both sides will endeavor to maintain the level of Japanese imports of U.S. coal. Japan expects that imports of competitively priced U.S. metallurgical coal will not continue to decline, and will encourage its steel industry to increase U.S. coal imports when conditions in the industry permit.

- Japan already has commitments to meet its expected natural gas needs through the early 1990s. Thereafter, opportunities exist for imports of competitively priced LNG from the US, perhaps in significant quantities in the mid- to late-1990s.

- Despite best efforts to diversify sources of energy, Japan will continue to rely heavily on imported oil to meet its energy needs. If legislative barriers can be overcome, the US has the potential to ship substantial quantities to Japan.

Recommendation

The Working Group recommends that the two governments agree to the following joint policy statement on further energy cooperation in oil, coal and gas. The Working Group further recommends that this policy statement be announced during President Reagan's November visit to Japan.

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